

**CITY OF POCAHONTAS, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2004**

# City of Pocahontas, Iowa

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-9
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10-12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13-14
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	15-16
Notes to Financial Statements		17-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		27-28
Notes to Required Supplementary Information – Budgetary Reporting		29
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	30-35
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	36
Schedule of Indebtedness	3	37-38
Bond and Note Maturities	4	39
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	40
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		41-42
Schedule of Findings		43-46

## City of Pocahontas, Iowa

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Tuttle	Mayor	Jan 2006
Rod Stoulil	Council Member	Nov 2006
John Dewall	Council Member	Jan 2006
Brooks Taylor	Council Member	Jan 2006
Kent Wood	Council Member	Jan 2008
Gus Holzmueeller	Council Member	Jan 2008
Greg Fritz	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2005
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Dr. Dennis Dahl	Airport Commissioner	July 2006
Gary McCarten	Airport Commissioner	July 2006
Dennis Marten	Airport Commissioner	July 2008
Ray Krips	Airport Commissioner	July 2008
Norman Hartsock	Airport Commissioner	July 2009
Nancy Kopriva	Library Trustee	July 2008
Donna Dewall	Library Trustee	July 2008
Jada Hallberg	Library Trustee	July 2008
Walter Cooke	Library Trustee	July 2009
Don Beneke	Library Trustee	July 2005
Dennis Fitzgerald	Library Trustee	July 2005
Charles Ahlrichs	Library Trustee	July 2005
Pat Spangler	Library Trustee	July 2004
Martie Nedved	Library Trustee	July 2004

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above do not include financial data of the Pocahontas Community Hospital, which should be included in order to conform with U.S. generally accepted accounting principles. The omitted component unit is audited by other auditors and is not yet complete. The amounts that should be included in these financial statements are not known.

In our opinion, except for the omission of the financial data of the Pocahontas Community Hospital, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities,

each major fund and the aggregate remaining fund information of the City of Pocahontas as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2004 on our consideration of the City of Pocahontas’ internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Pocahontas’ basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed a qualified opinion on those financial statements. Our opinion was qualified because the transactions of the Pocahontas Community Hospital were not included. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

August 4, 2004

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The City of Pocahontas provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities included \$1,226,687 in Governmental Funds and \$1,825,114 in Proprietary Funds for total revenue of \$3,051,801.
- Disbursements included \$1,750,378 in Governmental Funds and \$2,003,506 in Proprietary Funds for total expenditures of \$3,753,884.
- The City's total cash basis net assets decreased \$373,187, approximately 13.5%, from the previous year. This includes an increase in the Governmental Funds of \$103,503 and a decrease in the Proprietary Funds of \$476,692.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

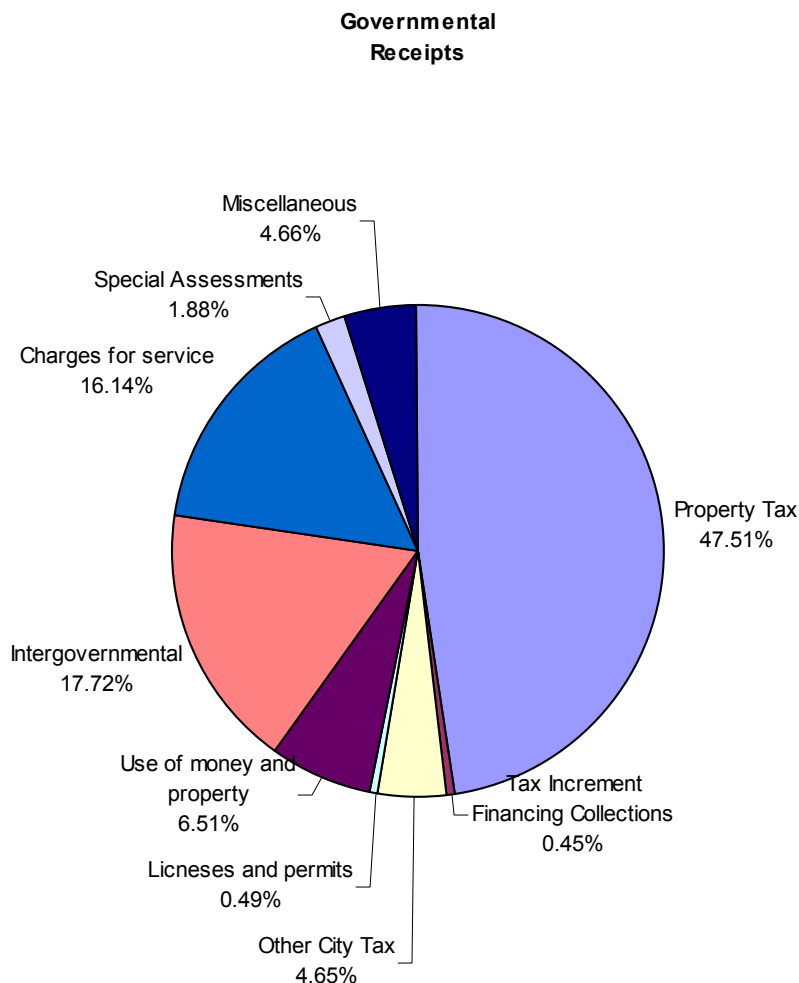
- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the electric, water, and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

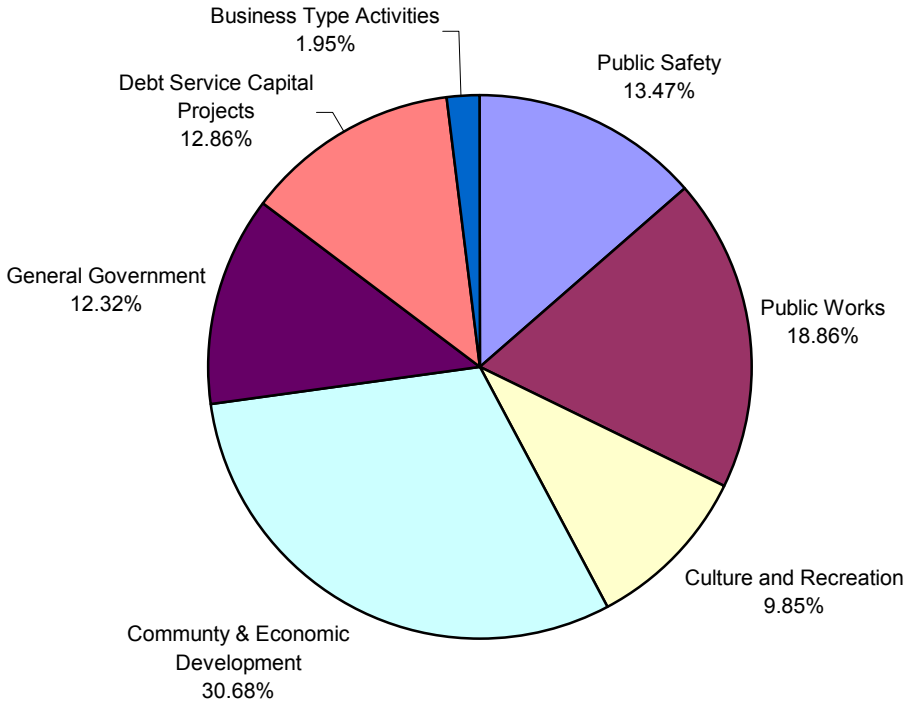
## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's cash balance for governmental activities increased from a year ago, increasing from \$981,577 to \$1,085,080. Total receipts were \$1,226,687 and disbursements and transfers were \$1,750,378. The following pie charts show a breakdown of receipts and disbursements for the last fiscal year.





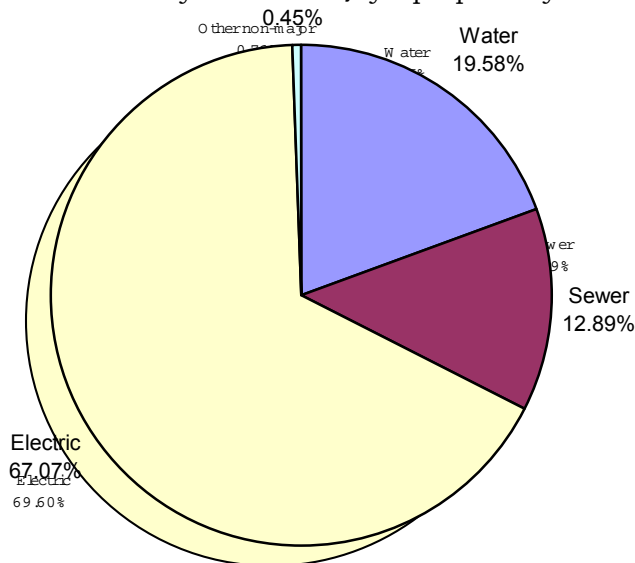
### Governmental Disbursements



### Proprietary Disbursements & Transfers

#### Proprietary Receipts

\$1,776,871 to \$1,300,179. Total receipts were \$1,825,114 and total disbursements and transfers were \$2,003,506. The following pie charts show a breakdown of receipts and disbursements for the last fiscal year for the city's proprietary activities.



The City's cash balance for proprietary activities decreased from a year ago, decreasing from \$1,776,871 to \$1,300,179.

## **BUDGETARY HIGHLIGHTS**

In addition to expenditures for normal operating items such as police and fire protection, utility services, snow removal, swimming pool, etc. the City of Pocahontas has several major capital projects underway. These capital projects include improvements to the airport, an electric generator project, construction of a new water treatment plant and well, improvements to the wastewater treatment plant, and the purchase of land for a residential subdivision.

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating revenues and disbursements related to the city's water improvements, sewer improvements, and airport projects. The city is using federal and state grants, loan proceeds, and cash reserves to finance these projects.

## **DEBT ADMINISTRATION**

At June 30, 2004, the City had approximately \$2,185,000 in bonds and other long-term debt. This debt included \$1,440,000 in General Obligation debt and \$745,000 in Electric Revenue Bonds.

During the fiscal year the City Council approved two loan agreements under the State of Iowa Revolving Loan Fund program. The first loan agreement for \$1,615,000 will be used to finance water improvements including a new water treatment plant and a new well. The second loan agreement for \$1,200,000 will be used to finance improvements to the city's wastewater treatment plant. At the end of the fiscal year the city had not yet received any proceeds from these loans. Revenue generated from water and sewer services will be used to repay these loans.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,440,000 is significantly below its constitutional debt limit of \$2,543,670. Revenue bonds and loans are not subject to the 5% limit.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joan DeWall, City Clerk, or Greg Fritz, City Administrator at 23 West Elm Avenue, Pocahontas, Iowa.

## **Basic Financial Statements**

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2004

		Program Receipts		
		Operating		
		Grants, Contributions, and Restricted		
		Charges for Service		
		Interest		
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 235,853	-	-	-
Public works	330,161	166,871	164,076	-
Culture and recreation	172,439	31,104	7,125	-
Community and economic development	537,037	-	10,912	-
General government	215,623	-	-	-
Debt service	225,130	-	-	-
Capital projects	<u>34,135</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>1,750,378</u>	<u>197,975</u>	<u>182,113</u>	<u>-</u>
Business type activities:				
Water	396,755	237,410	-	-
Sewer	214,273	285,225	-	-
Electric	1,387,221	1,229,210	-	-
Other non-major	<u>5,257</u>	<u>13,945</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>2,003,506</u>	<u>1,765,790</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 3,753,884</u>	<u>1,963,765</u>	<u>182,113</u>	<u>-</u>
Component Unit:				
Airport authority	<u>\$ 100,774</u>	<u>-</u>	<u>-</u>	<u>95,487</u>

City of Pocahontas, Iowa

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2004

	Net (Disbursements ) Receipts and Changes in Cash Basis Net Assets			Component
	Primary Government			Unit
	Governmental	Business Type		Airport
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Authority</u>
<b>General Receipts:</b>				
Property tax levied for:				
General purposes	466,303	-	466,303	-
Tax increment financing	5,506	-	5,506	-
Debt service	116,468	-	116,468	-
Local option sales tax	57,090	-	57,090	-
Unrestricted interest on investments	32,332	47,679	80,011	1,125
Miscellaneous	168,900	11,645	180,545	21,789
Sale of assets	328,894	-	328,894	-
Transfers	<u>298,300</u>	<u>(298,300)</u>	<u>-</u>	<u>-</u>
Total general receipts and transfers	<u>1,473,793</u>	<u>(238,976)</u>	<u>1,234,817</u>	<u>22,914</u>
Change in cash basis net assets	103,503	(476,692)	(373,189)	17,627
Cash basis net assets beginning of year	<u>981,577</u>	<u>1,776,871</u>	<u>2,758,448</u>	<u>74,734</u>
Cash basis net assets end of year	<u>\$ 1,085,080</u>	<u>1,300,179</u>	<u>2,385,259</u>	<u>92,361</u>
<b>Cash Basis Net Assets</b>				
Restricted:				
Employee benefits	\$ 112,332	-	112,332	-
Culture and recreation	161,917	-	161,917	-
Debt service	55,719	580	56,299	-
Other	164,003	-	164,003	-
Unrestricted	<u>591,109</u>	<u>1,299,599</u>	<u>1,890,708</u>	<u>92,361</u>
<b>Total cash basis net assets</b>	<u>\$ 1,085,080</u>	<u>1,300,179</u>	<u>2,385,259</u>	<u>92,361</u>

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component
Governmental	Business Type		Unit
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Airport</u> <u>Authority</u>
(235,853)	-	(235,853)	-
786	-	786	-
(134,210)	-	(134,210)	-
(526,125)	-	(526,125)	-
(215,623)	-	(215,623)	-
(225,130)	-	(225,130)	-
(34,135)	-	(34,135)	-
<u>(1,370,290)</u>	<u>-</u>	<u>(1,370,290)</u>	<u>-</u>
-	(159,345)	(159,345)	-
-	70,952	70,952	-
-	(158,011)	(158,011)	-
<u>-</u>	<u>8,688</u>	<u>8,688</u>	<u>-</u>
<u>-</u>	<u>(237,716)</u>	<u>(237,716)</u>	<u>-</u>
<u>(1,370,290)</u>	<u>(237,716)</u>	<u>(1,608,006)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,287)</u>

(continued)

City of Pocahontas, Iowa  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2004

	<u>General</u>	<u>Special Revenue Industrial Development</u>
Receipts:		
Property tax	\$ 318,783	-
Tax increment financing collections	-	-
Other city tax	-	-
Licenses and permits	5,978	-
Use of money and property	44,199	6,555
Intergovernmental	19,377	-
Charges for service	197,975	-
Special assessments	-	17,664
Miscellaneous	24,226	24,451
Total receipts	<u>610,538</u>	<u>48,670</u>
Disbursements:		
Operating:		
Public safety	199,348	-
Public works	189,860	-
Culture and recreation	155,824	-
Community and economic development	1,686	506,366
General government	171,221	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>717,939</u>	<u>506,366</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(107,401)</u>	<u>(457,696)</u>
Other financing sources (uses):		
Sale of capital assets	-	328,894
Operating transfers in	172,000	86,200
Operating transfers out	(70,077)	-
Total other financing sources	<u>101,923</u>	<u>415,094</u>
Net change in cash balances	(5,478)	(42,602)
Cash balances beginning of year	271,184	43,864
Cash balances end of year	<u>\$ 265,706</u>	<u>1,262</u>
<b>Cash Basis Fund Balances</b>		
Reserved:		
Debt service	\$ -	-
Unreserved:		
General fund	265,706	-
Special revenue funds	-	1,262
Capital projects fund	-	-
Permanent fund	-	-
Total cash basis fund balances	<u>\$ 265,706</u>	<u>1,262</u>

See notes to financial statements.

# Exhibit B

Other  
Nonmajor  
Governmental

<u>Funds</u>	<u>Total</u>
263,988	582,771
5,506	5,506
57,090	57,090
-	5,978
29,051	79,805
197,963	217,340
-	197,975
5,390	23,054
8,491	57,168
<u>567,479</u>	<u>1,226,687</u>

36,505	235,853
140,301	330,161
16,615	172,439
28,985	537,037
44,402	215,623
225,130	225,130
34,135	34,135
<u>526,073</u>	<u>1,750,378</u>

<u>41,406</u>	<u>(523,691)</u>
---------------	------------------

-	328,894
147,177	405,377
(37,000)	(107,077)
<u>110,177</u>	<u>627,194</u>

151,583	103,503
<u>666,529</u>	<u>981,577</u>
<u>818,112</u>	<u>1,085,080</u>

55,719	55,719
--------	--------

-	265,706
280,094	281,356
332,299	332,299
150,000	150,000
<u>818,112</u>	<u>1,085,080</u>



City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
Operating receipts:			
Use of money and property	\$ 1,276	4,800	-
Charges for service	223,050	277,565	1,189,735
Miscellaneous	13,084	2,860	39,475
Total operating receipts	<u>237,410</u>	<u>285,225</u>	<u>1,229,210</u>
Operating disbursements:			
Business type activities	<u>396,755</u>	<u>214,273</u>	<u>1,272,801</u>
Total operating disbursements	<u>396,755</u>	<u>214,273</u>	<u>1,272,801</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(159,345)</u>	<u>70,952</u>	<u>(43,591)</u>
Non-operating receipts (disbursements):			
Interest on investments	8,084	9,155	30,440
Miscellaneous	-	1,085	10,560
Debt service	<u>-</u>	<u>-</u>	<u>(114,420)</u>
Total non-operating receipts (disbursements)	<u>8,084</u>	<u>10,240</u>	<u>(73,420)</u>
Excess (deficiency) of receipts over (under) disbursements	(151,261)	81,192	(117,011)
Operating transfers out	<u>(54,000)</u>	<u>(82,500)</u>	<u>(156,600)</u>
Net change in cash balances	(205,261)	(1,308)	(273,611)
Cash balances beginning of year	<u>301,026</u>	<u>224,205</u>	<u>1,210,111</u>
Cash balances end of year	<u>\$ 95,765</u>	<u>222,897</u>	<u>936,500</u>
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	580
Reserved for capital improvements	(93,182)	66,079	106,219
Reserved for capital equipment	14,496	41,309	26,997
Unreserved	<u>174,451</u>	<u>115,509</u>	<u>802,704</u>
Total cash basis fund balances	<u>\$ 95,765</u>	<u>222,897</u>	<u>936,500</u>

See notes to financial statements.

## Exhibit C

Other <u>Nonmajor</u>	<u>Total</u>
8,000	14,076
5,945	1,696,295
-	55,419
<u>13,945</u>	<u>1,765,790</u>
<u>5,257</u>	<u>1,889,086</u>
<u>5,257</u>	<u>1,889,086</u>
<u>8,688</u>	<u>(123,296)</u>
-	47,679
-	11,645
<u>-</u>	<u>(114,420)</u>
<u>-</u>	<u>(55,096)</u>
 	-
8,688	(178,392)
<u>(5,200)</u>	<u>(298,300)</u>
3,488	(476,692)
<u>41,529</u>	<u>1,776,871</u>
<u>45,017</u>	<u>1,300,179</u>
-	580
-	79,116
-	82,802
<u>45,017</u>	<u>1,137,681</u>
<u>45,017</u>	<u>1,300,179</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, City of Pocahontas has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Pocahontas (the primary government) and one of its component units. The component unit discussed below (The Airport) is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Complete financial statements of the Airport component unit are included in this audit report. Pocahontas Community Hospital, another component unit, has not been included in these financial statements because the hospital's financial statements are prepared on the accrual basis of accounting. The hospital's audit report is audited by other auditors and is available at the hospital or at the City Clerk's office.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

Discretely Presented Component Unit

The Airport component unit is presented in a separate column to emphasize that

it is legally separate from the City, but is financially accountable to the City, and its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Airport is governed by a five-member board appointed by the City Council and the Airport's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Pocahontas County Emergency Management Commission and Pocahontas County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Industrial Development Fund is used to account for industrial development projects.

City of Pocahontas, Iowa  
Notes to Financial Statements

June 30, 2004

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City of Pocahontas maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required

Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

**(2) Cash**

The City's deposits in banks at June 30, 2004 were entirely covered by federal

depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments at June 30, 2004. During the year, the City deposited excess funds in certificates of deposit.

**(3) Bonds Payable**

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

Year Ending	General		Revenue Bonds		Total	
	Obligation Bonds					
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 165,000	54,518	80,000	31,520	245,000	86,038
2006	175,000	49,155	85,000	28,720	260,000	77,875
2007	180,000	43,467	85,000	25,533	265,000	69,000
2008	175,000	27,168	90,000	22,132	265,000	59,300
2009	165,000	30,605	95,000	18,398	260,000	49,003
2010	175,000	24,005	100,000	14,265	275,000	38,270
2011	180,000	16,918	105,000	9,765	285,000	26,683
2012	125,000	9,537	105,000	4,935	230,000	14,472
2013	50,000	4,350	---	---	50,000	4,350
2014	50,000	2,200	---	---	50,000	2,200
Total	\$ 1,440,000	271,923	745,000	155,268	2,185,000	427,191

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue note sinking account within the enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) There shall be a reserve fund with a minimum balance of \$90,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to minimum required level.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS),

which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$34,588, \$37,497 and \$37,051, respectively, equal to the required contributions for each year.



City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ 35,000 =====

This liability has been computed based on rates of pay in effect at June 30, 2004.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 47,000
	Sewer	25,000
	Electric	100,000
Capital Projects:		
Capital Improvements	General	10,000
	Special Revenue:	
	Road Use	6,000
Capital Equipment	General	
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	1,500
	Special Revenue:	
	Road Use	26,000
Special Revenue:		
Industrial Development	General	30,000
	Enterprise:	
	Water	1,000
	Electric	50,000
	Clinic	5,200
Debt Service	Capital Projects:	
	Capital Equipment	20,100
	Enterprise:	
	Sewer	<u>52,000</u>
Total		<u>\$ 405,377</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$11,581 during the year ended June 30, 2004.

**(8) Risk Management**

The City of Pocahontas is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Commitments**

As of June 30, 2004, the City had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Commitment</u>
Electric Generation Project	\$ 96,650
Water Treatment Improvements	1,477,104
2004 Street Project	78,286
Well #4 Project	103,746
Airport Project	574,952

The City will pay for the 2004 street project out of its road use monies and will finance the water improvements and well project from bonds issued in the spring of 2005. The airport project will be financed by an FAA grant.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2004

**(10) Subsequent Events**

The City has committed to a water improvement project for approximately \$2.1 million to be paid from issuance of revenue bonds for 1.6 million and a grant for \$500,000.

The City has also committed to a sewer improvement project for approximately 1.7 million to be paid from issuance of revenue bonds for 1.2 million and a grant for \$500,000.

**(11) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

## **Required Supplementary Information**

City of Pocahontas, Iowa

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 582,771	-
Tax increment financing collections	5,506	-
Other city tax	57,090	-
Licenses and permits	5,978	-
Use of money and property	79,805	61,755
Intergovernmental	217,340	-
Charges for service	197,975	1,696,295
Special assessments	23,054	-
Miscellaneous	57,168	67,064
Total receipts	<u>1,226,687</u>	<u>1,825,114</u>
Disbursements:		
Public safety	235,853	-
Public works	330,161	-
Culture and recreation	172,439	-
Community and economic development	537,037	-
General government	215,623	-
Debt service	225,130	-
Capital projects	34,135	-
Business type activities	-	2,003,506
Total disbursements	<u>1,750,378</u>	<u>2,003,506</u>
Deficiency of receipts under disbursements	(523,691)	(178,392)
Other financing sources (uses), net	<u>627,194</u>	<u>(298,300)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	103,503	(476,692)
Balances beginning of year	<u>981,577</u>	<u>1,776,871</u>
Balances end of year	<u>\$ 1,085,080</u>	<u>1,300,179</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
582,771	568,526	568,526	14,245
5,506	6,000	6,000	(494)
57,090	85,019	85,019	(27,929)
5,978	3,950	3,950	2,028
141,560	86,000	86,000	55,560
217,340	198,325	2,058,325	(1,840,985)
1,894,270	2,068,440	2,068,440	(174,170)
23,054	-	-	23,054
124,232	65,930	405,930	(281,698)
<u>3,051,801</u>	<u>3,082,190</u>	<u>5,282,190</u>	<u>(2,230,389)</u>
235,853	276,325	276,325	40,472
330,161	499,605	1,084,605	754,444
172,439	191,065	191,065	18,626
537,037	7,750	1,082,750	545,713
215,623	229,825	229,825	14,202
225,130	225,180	225,180	50
34,135	637,700	637,700	603,565
<u>2,003,506</u>	<u>1,578,395</u>	<u>5,078,395</u>	<u>3,074,889</u>
<u>3,753,884</u>	<u>3,645,845</u>	<u>8,805,845</u>	<u>5,051,961</u>
(702,083)	(563,655)	(3,523,655)	
<u>328,894</u>	<u>-</u>	<u>3,000,000</u>	
(373,189)	(563,655)	(523,655)	
<u>2,758,448</u>	<u>3,623,749</u>	<u>3,623,749</u>	
<u>2,385,259</u>	<u>3,060,094</u>	<u>3,100,094</u>	

City of Pocahontas, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds and fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,160,000 and increased budgeted revenues by \$5,200,000. The budget amendments are reflected in the final budgeted amounts.



## **Other Supplementary Information**

City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>
Receipts:				
Property tax	\$ -	147,520	-	-
Tax increment financing collections	-	-	-	5,506
Other city tax	-	-	57,090	-
Use of money and property	-	-	-	-
Intergovernmental	164,076	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>164,076</u>	<u>147,520</u>	<u>57,090</u>	<u>5,506</u>
Disbursements:				
Operating:				
Public safety	-	36,505	-	-
Public works	110,451	29,850	-	-
Culture and recreation	-	16,615	-	-
Community and economic development	-	-	-	8,704
General government	-	44,402	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>110,451</u>	<u>127,372</u>	<u>-</u>	<u>8,704</u>
Excess (deficiency) of receipts over (under) disbursements	53,625	20,148	57,090	(3,198)

City of Pocahonats, Iowa

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>
Other financing sources (uses):				
Operating transfers out	(32,000)	-	-	-
Operating transfers in	-	-	-	-
Total other financing sources (uses)	<u>(32,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	21,625	20,148	57,090	(3,198)
Cash balances beginning of year	<u>52,844</u>	<u>92,184</u>	<u>-</u>	<u>35,642</u>
Cash balances end of year	<u>\$ 74,469</u>	<u>112,332</u>	<u>57,090</u>	<u>32,444</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	74,469	112,332	57,090	32,444
Capital project fund	-	-	-	-
Permanent funds	-	-	-	-
Reserved:				
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 74,469</u>	<u>112,332</u>	<u>57,090</u>	<u>32,444</u>

See accompanying independent auditor's report.

## Schedule 1

			Debt Service	Capital Projects	
Housing <u>Grant</u>	"Irma Elbert Bequest"	"Charlotte Lenore Zech Bequest"	Debt <u>Service</u>	Capital <u>Improvement</u>	Capital <u>Equipment</u>
-	-	-	116,468	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	3,348	-	22,383	3,320	-
10,912	-	-	21,827	-	1,148
-	-	-	-	4,781	609
-	-	-	-	4,185	4,306
<u>10,912</u>	<u>3,348</u>	<u>-</u>	<u>160,678</u>	<u>12,286</u>	<u>6,063</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
19,070	1,211	-	-	-	-
-	-	-	-	-	-
-	-	-	225,130	-	-
-	-	-	-	21,835	12,300
<u>19,070</u>	<u>1,211</u>	<u>-</u>	<u>225,130</u>	<u>21,835</u>	<u>12,300</u>
(8,158)	2,137	-	(64,452)	(9,549)	(6,237)

(continued)

## Schedule 1

			Debt Service	Capital Projects	
Housing <u>Grant</u>	"Irma Elbert Bequest"	"Charlotte Lenore Zech Bequest"	Debt <u>Service</u>	Capital <u>Improvement</u>	Capital <u>Equipment</u>
-	-	-	-	-	(5,000)
-	-	-	72,100	16,000	59,077
-	-	-	72,100	16,000	54,077
(8,158)	2,137	-	7,648	6,451	47,840
-	5,526	4,254	48,071	125,566	152,442
<u>(8,158)</u>	<u>7,663</u>	<u>4,254</u>	<u>55,719</u>	<u>132,017</u>	<u>200,282</u>
(8,158)	7,663	4,254	-	-	-
-	-	-	-	132,017	200,282
-	-	-	-	-	-
-	-	-	55,719	-	-
<u>(8,158)</u>	<u>7,663</u>	<u>4,254</u>	<u>55,719</u>	<u>132,017</u>	<u>200,282</u>

(continued)

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Permanent			
	"Jean Wallace Perry <u>Memorial</u> "	"Charlotte Lenore Zech <u>Bequest</u> "	"Irma Elbert <u>Bequest</u> "	<u>Total</u>
Receipts:				
Property tax	\$ -	-	-	263,988
Tax increment financing collections	-	-	-	5,506
Other city tax	-	-	-	57,090
Use of money and property	-	-	-	29,051
Intergovernmental	-	-	-	197,963
Special assessments	-	-	-	5,390
Miscellaneous	-	-	-	8,491
Total receipts	-	-	-	567,479
Disbursements:				
Operating:				
Public safety	-	-	-	36,505
Public works	-	-	-	140,301
Culture and recreation	-	-	-	16,615
Community and economic development	-	-	-	28,985
General government	-	-	-	44,402
Debt service	-	-	-	225,130
Capital projects	-	-	-	34,135
Total disbursements	-	-	-	526,073
Excess (deficiency) of receipts over (under) disbursements	-	-	-	41,406

(continued)

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2004

	<u>Proprietary</u>		
	<u>Meter Deposits</u>	<u>Clinic</u>	<u>Total</u>
Receipts:			
Charges for service	\$ 5,945	-	5,945
Use of money and property	-	8,000	8,000
Total receipts	<u>5,945</u>	<u>8,000</u>	<u>13,945</u>
Disbursements:			
Operating:			
Business-type activities	<u>3,982</u>	<u>1,275</u>	<u>5,257</u>
Excess of receipts over disbursements	1,963	6,725	8,688
Other financing uses:			
Operating transfers out	<u>-</u>	<u>(5,200)</u>	<u>(5,200)</u>
Net change in cash balances	1,963	1,525	3,488
Cash balances beginning of year	<u>6,683</u>	<u>34,846</u>	<u>41,529</u>
Cash balances end of year	<u>\$ 8,646</u>	<u>36,371</u>	<u>45,017</u>
<b>Cash Basis Fund Balances</b>			
Unreserved	<u>\$ 8,646</u>	<u>36,371</u>	<u>45,017</u>

See accompanying independent auditor's report.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds: G.O. refunding bonds Series 2001	Nov 1, 2001	3.00-4.40%	<u>\$ 1,715,000</u>
Other: Retail installment contract	Dec 29, 2000	0.90%	<u>\$ 25,000</u>
Revenue bonds: Electric	Apr 15, 2002	2.75-4.10%	<u>\$ 900,000</u>

See accompanying independent auditor's report.



## Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>1,605,000</u>	<u>-</u>	<u>165,000</u>	<u>1,440,000</u>	<u>59,880</u>	<u>-</u>
<u>4,214</u>	<u>-</u>	<u>4,214</u>	<u>-</u>	<u>11</u>	<u>-</u>
<u>825,000</u>	<u>-</u>	<u>80,000</u>	<u>745,000</u>	<u>34,120</u>	<u>-</u>

## Bond Maturities

June 30, 2004

	General Obligation		
	Refunding Bonds Series 2001		
	Issued November 1, 2001		
Year Ending	Interest		
<u>June 30,</u>	<u>Rates</u>		<u>Amount</u>
2005	3.25 %		\$ 165,000
2006	3.25		175,000
2007	3.50		180,000
2008	3.75		175,000
2009	4.00		165,000
2010	4.05		175,000
2011	4.10		180,000
2012	4.15		125,000
2013	4.30		50,000
2014	4.40		50,000
Total			<u>\$ 1,440,000</u>

Year Ending <u>June 30,</u>	Revenue Bonds	
	Electric Series 2002	
	Issued April 15, 2002	
	Interest <u>Rates</u>	<u>Amount</u>
2005	3.50 %	\$ 80,000
2006	3.75	85,000
2007	4.00	85,000
2008	4.15	90,000
2009	4.35	95,000
2010	4.50	100,000
2011	4.60	105,000
2012	4.70	105,000
Total		<u>\$ 745,000</u>

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 582,771	555,410
Tax increment financing collections	5,506	-
Other city tax	57,090	9,604
Licenses and permits	5,978	2,065
Use of money and property	79,805	79,939
Intergovernmental	217,340	216,267
Charges for service	197,975	193,299
Special assessments	23,054	4,699
Miscellaneous	<u>57,168</u>	<u>86,519</u>
Total	<u>\$ 1,226,687</u>	<u>1,147,802</u>
Disbursements:		
Operating:		
Public safety	\$ 235,853	249,267
Public works	330,161	368,997
Culture and recreation	172,439	151,623
Community and economic development	537,037	15,591
General government	215,623	226,590
Debt service	225,130	217,100
Capital projects	<u>34,135</u>	<u>88,181</u>
Total	<u>\$ 1,750,378</u>	<u>1,317,349</u>

See accompanying independent auditor's report.

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Permanent			
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	<u>Total</u>
Other financing sources (uses):				
Operating transfers out	-	-	-	(37,000)
Operating transfers in	-	-	-	147,177
Total other financing sources (uses)	-	-	-	110,177
Net change in cash balances	-	-	-	151,583
Cash balances beginning of year	2,500	87,500	60,000	666,529
Cash balances end of year	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>818,112</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	-	-	-	280,094
Capital project fund	-	-	-	332,299
Permanent funds	2,500	87,500	60,000	150,000
Reserved:				
Debt service	-	-	-	55,719
Total cash basis fund balances	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>818,112</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Pocahontas, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Our opinion was qualified since the transactions of the Pocahontas Community Hospital were not included. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Pocahontas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item II-G-04.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pocahontas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Pocahontas' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04, I-B-04 and I-C-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04, I-B-04 and I-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pocahontas during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

August 4, 2004

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2004

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, posting of cash receipts to the cash receipts journal, and the preparation of deposit slips are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - The City should utilize administrative personnel to provide additional control through a review of financial transactions and reports.

I-B-04 Segregation of Duties - Airport - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the airport financial statements are prepared by the person responsible for posting receipts and disbursements. This person also reconciles the bank account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Airport Commission review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2004

- I-C-04 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account. Also prenumbered receipts are not utilized.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances. Prenumbered receipts should be utilized to help insure proper control over cash receipts.

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- II-C-04 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.



City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2004

II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jeff Johnson, City Treasurer, Shareholder of Jeff Johnson, A.P., P.C.	Monthly accounting for airport	\$ 2,777
Al Henrickson, Employee Owner of Poky Graphics	Contractual Services	890
Tom Hoopingardner, Employee, Owner of H & H Tree Service	Tree trimming	145
Brooks Taylor – Council Member Editor of Record Democrat	Newspaper printings	4,855
Gus Holzmueller – Council Member Owner of Pocahontas Ford	Auto Repairs	968
Kent Wood – Council Member 14% Owner of Wood's Supermarket		1,947

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with H & H Tree Service, Poky Graphics, Pocahontas Ford and Wood's Supermarket, do not appear to represent conflicts of interest since the total transactions with each was less than \$2,500 during the fiscal year. The transaction with the City treasurer does not appear to represent a conflict of interest since it was entered into through competitive bidding. The transaction with the newspaper does not appear to represent a conflict of interest since a resolution was passed naming The Record Democrat as the official newspaper. Taylor didn't vote on this resolution.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2004

II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with the Attorney General's opinion and publish gross salaries.

Response – This was an oversight this year. We will publish our salaries in the future.

Conclusion – Response accepted.

II-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-04 Revenue Notes – The City is in compliance with its note resolutions.

II-J-04 Financial Condition – The Special Revenue Fund, Housing Grant Fund had a deficit balance at June 30, 2004 of \$8,158.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit was due to construction costs incurred prior to receipt of a federal grant. The deficit was subsequently eliminated.

Conclusion – Response accepted.